

**Non-treasury Investment Strategy Report 2024-25**

**1. Introduction**

- 1.1 The Council invests its money for two broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments)
  - to support local public services by lending to or buying shares in other organisations (service investments)
- 1.2 This investment strategy meets the requirements of the statutory guidance issued by the Government in January 2018 and focuses on service investments.
- 1.3 The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council’s definition of an investment with that in the 2021 edition of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, a more recent piece of statutory guidance.

**2. Treasury Management Investments**

- 2.1 The Authority typically receives its income in cash (e.g. from taxes, grants and fees & charges) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from CIPFA. The balance of treasury management investments is expected to fluctuate between £56m and £200m during the 2024-25 financial year.
- 2.2 The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities. Full details of the Council’s policies and its plan for 2024-25 for treasury management investments are covered in a separate document, the Treasury Management Strategy Statement.

**3. Service Investments: Loans**

- 3.1 The Council may lend money to its subsidiaries and associates, local charities, housing associations and its employees to support local public services and

stimulate local economic growth. For example, loans to PLACE Ltd and Oxford House.

- 3.2 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

**Table 1 - loans for service purposes**

Category of borrower	Actuals at 31.03.2023			2024-25
	Balance owing £m	Loss allowance £m	Net figure in accounts £m	Approved Limit £m
Subsidiaries & associates				
Seahorse	0.030	-	0.030	50.000
Place Ltd	0.646	-	0.646	
Mulberry Homes	0.010	-	0.010	
Local charities				2.000
Oxford House	0.728	-	0.728	0.700
Employees	0.160	-	0.160	
Sundry loan advances	0.601	-	0.601	
<b>TOTAL</b>	<b>2.175</b>	<b>-</b>	<b>2.175</b>	<b>52.700</b>

- 3.3 Loans to local charities relate to Oxford House. Employee loans relate to car loans, bicycle loans and train season tickets. Loans to subsidiaries and associates relate to PLACE Ltd, Seahorse Homes and Mulberry Homes.
- 3.4 The Council assesses the risk of loss before entering and whilst holding service loans. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. The Council is expecting full repayment on the loans to charities and employees.

#### **4. Service Investments: Shares**

- 4.1 The Council invests in shares to support the provision of local public services, housing in the local community and to stimulate local economic growth. The Council has nominal value shares in several companies - Tower Hamlets Local Education Partnership Ltd, Mulberry Housing, Seahorse Homes Ltd and Tower Hamlets Homes. Capital Letters is owned along with other London boroughs, the company is limited by guarantee. The Council is one of five London boroughs with shareholdings in PLACE Ltd. The company is limited by guarantee therefore the Council has no shareholdings in PLACE Ltd.

- 4.2 Seahorse Homes is a wholly owned company limited by shares established in 2017, to provide market rented homes and deliver a return on investments, both to cross-subsidise affordable housing and to fund wider General Fund services. The Council holds 10% of the shares in this company and has initially committed £6m in equity. The company has yet to start trading.
- 4.3 One of the risks of investing in shares is that they fluctuate in value, meaning that the initial outlay may not be recovered. In order, to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

**Table 2 - shares held for service purposes**

Category of company	Actuals at 31.03.2023			2024-25
	Amounts invested £m	Gains or losses £m	Value in accounts £m	Approved Limit £m
Subsidiaries	6.00	-	6.00	6.00
Suppliers	-	-	-	-
<b>TOTAL</b>	<b>6.00</b>	<b>-</b>	<b>6.00</b>	<b>6.00</b>

- 4.4 The Authority assesses the risk of loss before entering into, and whilst holding shares. The investments in Seahorse Homes Ltd will be turned into property-backed assets that have a long-term track record of value appreciation, although there may be short-term value falls. Legal and independent advice was obtained before the company was created.
- 4.5 Proposed investments and loans are longer-term in nature. These investments will, therefore, not be used for short-term cash flow purposes. The maximum value of the investments is less than 20% of the Council's current investment portfolio.
- 4.6 Shares are the only non-treasury investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

## **5. Loan Commitments and Financial Guarantees**

- 5.1 Loan commitments and financial guarantees are not strictly counted as investments since no money has exchanged hands yet, however these carry similar risks to the Authority and are included here for completeness.
- 5.2 The Council has historically provided financial guarantees on properties transferred to social landlords. No liabilities have been payable on these guarantees.

## 6. Capacity, Skills and Culture

- 6.1 A training plan is being produced for the training of elected members and Council officers attend regular training during the year.
- 6.2 To ensure corporate governance, the Audit Committee is presented with mid-year and outturn reports to enable the review of treasury management activities.

## 7. Investment Indicators

- 7.1 The Council has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.
- 7.2 **Total risk exposure:** The indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees that the Authority has issued over third-party loans.

**Table 3 - total investment exposure**

<b>Total investment exposure</b>	<b>31.03.2023 Actual £m</b>	<b>31.03.2024 Forecast £m</b>	<b>31.03.2025 Forecast £m</b>
Treasury management investments	237.950	175.000	130.000
Service investments: Loans	2.175	2.175	2.175
Service investments: Shares	6.000	6.000	6.000-
<b>TOTAL INVESTMENTS</b>	<b>246.125</b>	<b>183.175</b>	<b>138.175</b>
Commitments to lend	-	-	-
Guarantees issued on loans	-	-	-
<b>TOTAL EXPOSURE</b>	<b>246.125</b>	<b>183.175</b>	<b>138.175</b>

- 7.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate individual assets with individual liabilities, this guidance is difficult to comply with. Some investments could be described as being funded by borrowing with the remainder of the Authority's investments being funded by usable reserves and income received in advance of expenditure.
- 7.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year in which they are incurred.

**Table 4 - investment rate of return (net of all costs)**

<b>Investments net rate of return</b>	<b>2022-23 Actual</b>	<b>2023-24 Forecast</b>	<b>2024-25 Forecast</b>
Treasury management investments	2.5%	5.25%	4.5%
Service investments: Loans	-	-	-
Service investments: Shares	-	-	-
Commercial investments: Property	-	-	-
All Investments	2.5%	5.25%	4.5%

\*forecast return includes income returns from externally managed pooled funds